GOVERNMENT OF INDIA
POWER
LOK SABHA

UNSTARRED QUESTION NO:1740
ANSWERED ON:28.11.2002
INVESTMENT IN POWER SECTOR
CHANDRA BHUSHAN SINGH

Will the Minister of POWER be pleased to state:

(a) whether many foreign investors in power sector are facing various problems to implement the projects;

(b) if so, the reasons therefor;

(c) whether many foreign investors in power sector have withdrawn from their proposals; and

(d) if so, the details thereof?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF POWER (SHRIMATI JAYAWANTI MEHTA)

(a) & (b) : Yes sir, majority of the private sector power projects (including those involving foreign investment) have not been able to achieve financial closure and take up construction work. Inability of the State Electricity Boards (SEB) to provide adequate payment security to the private sector power projects (which is a requirement of the project developers and more particularly the financial institutions), has been one of the main reasons due to which these projects could not achieve financial closure in spite of progressing well on other fronts. The other reasons for the delays are non-availability of escrow cover and Letter of Credit (LC), delay in finalization of various contracts such as Power Purchase Agreement, Fuel Supply Agreement and Fuel Transportation Agreement etc. acceptable to all the concerned parties, Court cases in the form of Public Interest Petitions etc., reluctance by the SEBs to buy power generated from naphtha and other high cost liquid fuels and withdrawal by EPC (Engineering Procurement & Construction) Contractors, etc.

(c) & (d) : As per available information, the details of foreign investors who have withdrawn from power projects, are indicated below:-

(i) Maheshwar Hydel power project (10x40MW) of M/s Shree Maheshwar Hyde Power Corporation Ltd. (SMHPCL) in Madhya Pradesh is being promoted by a consortium led by M/s S. Kumars. The first foreign investor in the project was Pacgen, power utility in USA, who signed a Memorandum of Understanding (MOU) with S. Kumars Group (the main promoter) in March, 1995, for 49% equity stake. However, in 1998, they withdrew from the project.

In February, 1998 two German Power majors, Bayomwerk and VEW entered into a shareholders agreement with S. Kumars Group. In November, 1998, these companies withdrew from the project.

Following the withdrawal of the German majors, S. Kumars tied up with Ogden Energy (a US power major) and executed a shareholders agreement with them in December, 1999. SMHPCL informed in August, 2001 that Ogden Energy was no longer associated with the project and that their agreement stood terminated. It was informed by SMHPCL that the exit of Ogden could be attributed to its own reason viz., internal restructuring and changed business focus. Moreover, Ogden had planned to bring in equity contribution at the end of the project construction, which was not acceptable to the Indian Financial Institutions. The Financial Institutions were also insisting for the corporate guarantee of Ogden Energy while Ogden wanted non-recourse financing, which was not acceptable to the lenders. The project is still being pursued by the original promoters.

(ii) M/s. Cogentrix Energy Inc: In February, 2000, the company informed the Government of Karnataka and Government of India that they had transferred their interest in the Mangalore Power Company and the Mangalore Power Project to China Light (Mauritius) Ltd. with effect from 11th February, 2000. No reasons for the withdrawal were indicated by the company.

(iii) 420 MW Bakreshwar Thermal project in West Bengal (Units 4&5) : The Government of West Bengal: informed that M/s. Bakreshwar Power Generation Co. Ltd. which is a Joint Venture Company set up by the West Bengal Power Development Corporation (WBPDC), M/s. DCL and M/s. Ogden Energy Asia Pacific Ltd., for setting up the project, has been wound up and M/s. Ogden Energy Asia Pacific have exited from the Joint Venture Company. Government of West Bengal has decided to get the project

executed under State Sector by WBPDC.

(iv) 1070 MW Korba East Thermal Project :The promoters, M/s. Daewoo Power (India) Ltd. gave termination notice to the Government of Madhya Pradesh on 14.8.2000 citing inability of the Madhya Pradesh Electricity Board to provide payment security.

(v) In the case of the 6x660 MW Hirma Thermal Power Project in Orissa, which isbeing developed as a mega power project, the foreign promoters of the project, M/s. Mirant Asia Pacific Ltd. have announced their withdrawal from the project stating that several key milestones for activities relating to payment security mechanism, Fuel Supply Agreement, Implementation Agreement and Transmission Services Agreement have not been met.

(vi) In the case of the 2x250 MW Balagarh project in West Bengal, the project couldnot proceed due to poor financial health of the main promoter, i.e. Calcutta Electric Supply Company. On account of this, the co-promoter, M/s. Mirant Corporation, has walked out of the project.

(vii) The Maharashtra State Electricity Board (MSEB) informed during August, 2000hat M/s. Electricite de France, a French Power Company, had decided to pull out from the 1082 MW Bhadrawati Thermal plant in Maharashtra.The following reasons were indicated for pulling out from the project;

(a) Inordinate delay in getting clearances from various authorities.

(b) A very high coal price sought by the coal supplier.

(c) Lack of proper commitment to escrow arrangements.